

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

GUATEMALA

**PROGRAM FOR IMPROVING THE QUALITY OF SOCIAL
EXPENDITURE**

POLICY-BASED LOAN

(GU-0175)

LOAN PROPOSAL

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Proposed resolution

Electronic Links and References	
ABBREVIATIONS	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=423425
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loans in execution	http://ops.iadb.org/idbloans/
Information available in the RE2/SO2 technical files	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=423424
Annex I. Matrix of targets	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=423416
Annex II. Budgetary protection	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=423418
Annex III. Means of verification matrix	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=423420
Annex IV. Sector performance indicators	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=423422
Annex V. Policy letter	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=423423

PROJECT SUMMARY

GUATEMALA PROGRAM FOR IMPROVING THE QUALITY OF SOCIAL EXPENDITURE (GU-0175)

Financial Terms and Conditions ¹				
Borrower: Republic of Guatemala Executing agency: Ministry of Public Finance (MINFIN)			Amortization period:	25 years
			Grace period:	5 years
			1st tranche:	US\$30 million
			2nd tranche:	US\$30 million
			3rd tranche:	US\$40 million
Source	Amount (in millions)	%	Interest rate:	Variable
IDB (Ordinary Capital) (Intermediate Financing Facility account)	US\$72.2		Inspection and supervision fee:	0%
IDB (Ordinary Capital)	US\$27.8		Credit fee:	0.25%
			Currency:	US dollars from the Single Currency Facility
Total IDB	US\$100			
Project at a glance				
<p>Project objective:</p> <p>The program's general objective is to assist the government in its efforts to enhance the efficiency and targeting of social expenditure and investment toward the most vulnerable segments of the population and to establish results-driven management mechanisms in the social sphere at the national level, by protecting the budget needed to achieve those results. In order to attain these objectives, program disbursements will be contingent on completion of the design, and beginning of implementation, of the "Guate Solidaria" [Guatemala Together] strategy, and evidence that protection will be afforded to the social programs that will make up the social protection network, thereby ensuring that annual coverage targets are met.</p> <p>Special contractual conditions:</p> <p>Program funds will be disbursed in three tranches, of US\$30 million for each of the first two tranches and US\$40 million for the third, once the measures included in the policy matrix for each tranche have been taken and verified to the Bank's satisfaction.</p> <p>Summary of the contractual clause: N/A</p> <p>Exceptions to Bank policies: None.</p> <p>Summary of the exception: N/A</p> <p>Project consistent with country strategy: Yes [X] No []</p> <p>Project qualifies as: SEQ [Yes] PTI [No] Sector [] Geographic [] Headcount []</p> <p>Procurement: N/A</p> <p>Verified by CESI on: 8 October 2004</p>				

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Socioeconomic framework

- 1.1 Since the beginning of the decade and as a result of an adverse external environment—declining terms of trade, the coffee crisis, and the drop in tourism—combined with internal conflict that was not conducive to business and investment, the Guatemalan economy has been experiencing a significant downturn. Thus, gross domestic product (GDP) grew on average only 2.1% in 2001-2003, which meant that GDP per capita fell for three consecutive years, exacerbating the poverty that already existed.
- 1.2 The economy began to turn around in 2004, thanks to an increase in exports (driven by the economic recovery in the United States) and a robust increase in family remittances in the past few years, which led to a marked increase in private consumption. Growth in 2004 is expected to reach 2.5%, up slightly from 2003, but that rate is still too low to raise per capita income.
- 1.3 Despite the overall slowdown in economic growth in this period, Guatemala consolidated its macroeconomic stability and complied with the terms of two consecutive stand-by arrangements with the International Monetary Fund (IMF) (the last one expired in March 2004). Inflation in 2004 is likely to exceed the target range of 4% to 6%, essentially because of the increase in oil prices, but this spurt is not expected to last. The combined fiscal deficit remained under control, close to or below 2% of GDP, principally as a result of cuts in investment spending. The current account deficit of the balance of payments also narrowed, thanks to the combined impact of a sharp increase in remittances and the dampening effect on imports of the slowdown in economic growth. Finally, an increase in the flow of remittances and bond issues in international and domestic markets, facilitated by the macroeconomic stability, prompted a substantial increase in Central Bank reserves.
- 1.4 Another economic policy success in recent years has been financial sector reform. Although it is not yet complete, progress is already evident in the rehabilitation of the banking sector, signaling that systemic risk has declined considerably. Also noteworthy are the ongoing efforts, on the external front, to open up Guatemala's economy, including a pro-active approach to the Central American Free Trade Agreement (CAFTA).
- 1.5 Fiscal policy has stuck to the goal of trimming the fiscal deficits, with considerable success through 2004, principally by reining in expenditure, an option that may be difficult to sustain. Nevertheless, since the tax package of 2001, which raised the tax burden to 10.6% of GDP in 2002 (a record high level for Guatemala), no significant efforts have been made to increase tax revenue. The ruling that the tax on commercial and farming enterprises was unconstitutional, which meant that tax revenue equivalent to more than one percentage point of GDP was about to be

forgone, forced the government to promote another tax reform. This move was amended by Congress, limiting the scope of the reform. Consequently, tax receipts this year are expected to be in the region of 10% of GDP (similar to those of 2000-2001).

- 1.6 **The outlook for 2005-2006.** The growth outlook for the next two years is promising, essentially for three reasons: (i) there has been a marked improvement in the external environment; exports are growing again; and the recovery of the global economy is expected to continue; (ii) the domestic business climate is also improving as a result of enhanced dialogue between the new administration and the private sector; and (iii) the culmination of negotiations with the United States on implementation of the CAFTA is likely to lead to more investment and momentum in the country to take advantage of improved access to markets.
- 1.7 Nevertheless, there are some risks that have to be taken into account. The delicate fiscal position and gradual decline in tax revenue that will result from the entry into force of the CAFTA, combined with the very limited ability of the State to make the investments that the private sector needs in order to enhance its competitiveness, could have an adverse impact on economic performance over the coming years. Furthermore, the increasing insecurity in Guatemala is a major obstacle to confidence-building and the development of private investment.
- 1.8 Economic growth of approximately 3% is forecast for 2005, and a somewhat higher rate for 2006. However, these projections are clearly below those indicated in the Peace Accords as necessary for the country's development. Bearing in mind the rapid growth of the population, the projected increases in per capita GDP would be insufficient to reduce poverty and social exclusion. Even though the government will continue to pursue prudent fiscal policies, the tax burden target of 12% of GDP set in the Fiscal Compact (an integral part of the Peace Accords) is unlikely to be met without a renewed effort to reach a consensus on tax reform.
- 1.9 The government is discussing with the IMF the possibility of signing a new stand-by arrangement. To that end, an IMF mission visited Guatemala in early September 2004, to review the macroeconomic situation and key variables with the authorities and to agree on new targets. The main issue was the delicate fiscal situation, reflected in a tax burden for 2004 of only 9.7% of GDP, one of the lowest in Latin America. The IMF has made resolute action on tax reform and full compliance with the Fiscal Compact conditions for a new arrangement. Despite the difficulties in reaching agreements on tax reform, efforts to improve tax administration are bearing fruit, as the IMF has acknowledged. Senior management at the IMF continues to review the situation with the Guatemalan government authorities with a view to reaching a new arrangement that would take effect as of January 2005. Under these circumstances, over the next few years, the government should redouble its efforts to enhance the efficiency of social expenditure so that it can

reach the ambitious social targets it has set itself. This program is a response to that challenge.

- 1.10 Based on the macroeconomic and fiscal measures so far adopted by the government, Management considers that Guatemala is opting for a comprehensive economic program geared to maintaining macroeconomic and financial stability in the short and medium term. Such an economic program is likely to lead to the achievement and sustainability of the policy targets pursued in the program under review.

B. The social profile

- 1.11 Guatemala has the largest population of any Central American country. Nearly half (43%) of its 11.2 million inhabitants are indigenous, and 62% live in rural areas. It is also a young population (48% are under 18). On average there are five persons to every household. However, households living in extreme poverty average eight members each.¹
- 1.12 Poverty is so high in Guatemala that the country ranks as one of the poorest in Latin America. Fifty-six percent of the population is poor, and 21% of the population lives in extreme poverty,² which has increased in recent years. The worst poverty is found in rural areas (where 75% live below the poverty line) and among the indigenous population (where nearly 4 out of every 5 people are poor), for whom there is only limited access to education and health care, as well as transportation, markets, and other public services. Two-thirds of the children in Guatemala are poor, and 44% suffer from growth retardation, a factor that increases the probability of transmitting poverty from one generation to another. Although indigenous persons account for 43% of the population, they make up 58% of the poor and 72% of those living in extreme poverty. Generally speaking, a high proportion of indigenous persons work in the agricultural sector and earn low wages, especially those who do not speak Spanish. Whereas approximately eight out of every 10 indigenous persons are poor, only four out of 10 nonindigenous inhabitants fall into that category.
- 1.13 Despite the importance of women for development and the nutritional status of children, neither social policies nor cultural practices have supported the participation of girls and women in society, especially if they are poor and indigenous. For instance, one third of indigenous girls are not enrolled in primary school, compared with 18% of indigenous boys. At the same time, poor women incur very high health risks, because only 14% of the poorest quintile give birth in the presence of a doctor, nurse, or outreach worker; 71% give birth with the help of

¹ Perfil de la Pobreza en Guatemala [Profile of Poverty in Guatemala], National Institute of Statistics, 2000.

² Someone whose consumption is worth less than US\$1 per day.

midwives, and 15% have no help at all, which increases the risk of maternal-child mortality. Furthermore, women have less say in community decision making and, for cultural reasons, frequently have no land inheritance rights.

C. Characteristics of public and social expenditure

- 1.14 **Public expenditure.** Even though government spending in Guatemala rose from 10.7% of GDP in 1993 to 12.4% of GDP in 2002, it is still one of the lowest in Central America. In 1999-2003, the distribution of expenditure was not a function of extreme poverty indexes. The metropolitan region of Guatemala City has always received a far higher share of public expenditure, despite the fact that it has the lowest incidence of extreme poverty.
- 1.15 **Social expenditure.** Although social expenditure has increased in recent years, Guatemala still has one of the lowest levels of social expenditure in the region, equivalent to only 5.6% of GDP, less than half the average for countries included in a study by the Economic Commission for Latin America and the Caribbean (ECLAC).³ This is partly due to the low level of total public expenditure.
- 1.16 **Education.** While expenditure on education—2.3% of GDP—has increased since the Peace Accords were signed, it remains low, inefficient, and ill-focused. It increased steadily from 1996 to 1999, from 1.5% to 2.5% of GDP. Thereafter, it declined, to 2.3% in 2002. Most (66%) of the education sector's resources were allocated to primary education (1st-6th grade). The second most important item (9.6%) consisted of central administrative expenses. Pre-primary school education received 7.7% of outlays and comprehensive education (7th-9th grade), 3.5%. Furthermore, expenditure on education is poorly targeted, since the system spends US\$117 per capita on the nonpoor, compared with US\$34 per capita on the poor.
- 1.17 **Health.** Public expenditure on health is very low (1.3% of GDP), poorly distributed, and follows a curative model.⁴ Primary health care and health promotion and prevention services account for only 7% and 28%, respectively, of the Ministry of Public Health and Social Welfare (MSPAS) budget, compared with 46% for health recovery and rehabilitation services. At the same time, the geographical distribution of health posts and centers does not match the morbidity profile of the population. Likewise, the pattern of hospital use bears no relation to the breakdown of the population by income levels. For example, the nonpoor receive 55% of public expenditure on hospitals, compared to 36% for the poor and

³ The ratio of public social expenditure to GDP for Honduras, Nicaragua, and Costa Rica is 10%, 13.2 %, and 18.8%, respectively. ECLAC, 2003.

⁴ Public expenditure (per capita) on health in Guatemala is low compared to other Central American countries: Guatemala US\$19, as opposed to US\$274 in Panama, US\$24 in Honduras, and US\$22 in Nicaragua.

only 8% for those living in extreme poverty. As already noted above, the poor account for 56% of the population and the extremely poor, 21%.

- 1.18 **Food security and nutrition.** In 2003, nearly US\$30 million was spent on nutrition programs; most of them school food programs for primary school children. The largest of these are the MINEDUC (Ministry of Education) school lunch program and the school breakfast program sponsored by the Secretariat of the Office of the Vice President. Food programs for preschool children were administered by the comprehensive care program for children (PAIN) and *Hogares Comunitarios* [Community Homes], which, together, covered the food needs of 42,000 children under 5 (2.8% of the total number of poor children under 5).⁵ However, since the food programs are largely directed to the school population, they do not have a major impact on the children hardest hit by malnutrition, most of whom are under 2.
- 1.19 **Protection of social expenditure.** The low levels of public social expenditure and the country's difficult fiscal situation make it necessary to condition the disbursement of each tranche's resources on the allocation and protection of public spending on priority social programs. That will provide budgetary protection to those programs in education, health, and nutrition that target primarily the poorest segments of the population.

D. Social sector issues

- 1.20 **Education.** With regard to **coverage**, enrollment is insufficient at all educational levels and there are very significant gaps in coverage. The net enrollment rate for preschool education is very low (41.8% in 2002), while that for primary school is only 84.7%, and much lower (75%) for the poor, rural, and indigenous population. It is estimated that, in 2002, over 225,000 boys and girls ages 7 to 12 were not attending school. In secondary school (basic and comprehensive), the situation is worse. In 2002, only two out of every 10 youths enrolled in basic education courses and one of every 10 youths ages 16 to 18 received a comprehensive education. One important strategy was that sponsored by the National Self-Management Program for Educational Development (PRONADE), which organized parents in education committees (COEDUCA), and managed to incorporate 250,000 boys and girls into the system, mainly from rural and indigenous sectors.
- 1.21 **Internal efficiency and quality of education.** Late enrollment and high repeater and dropout rates make the Guatemalan educational system one of the most inefficient in the region and directly affect its ability to produce as many graduates as possible with optimal use of resources. Indeed, in 2000 over 40% of the children attending primary school were over-age and, on average, schoolchildren study 50%

⁵ Study on poverty in Guatemala, World Bank, 2002.

more years than the number of grades they pass. In 2001, 30% of the pupils in first grade of primary schools failed to pass the grade and 13% dropped out of school during the year. Almost a quarter (23%) of the pupils in the first cycle of primary school (third grade) failed to make it through to the next grade. This inefficiency has dire consequences for the country, given that in 2001 alone, at the primary level: (i) the repetition cost in public schools was US\$44 million and, just in first grade, US\$21 million; (ii) the dropout cost was US\$18 million; and (iii) while the primary education budget totaled US\$250 million, failure, repetition, and dropouts together cost US\$109 million.

- 1.22 **School infrastructure.** Guatemala has 31,632 schools, 50.8% of which provide basic education; and 81% are located in rural areas. In recent years, construction of schools has been delegated to various social funds, such as the Social Investment Fund (SIF), the National Fund for Peace (FONAPAZ), the Executive Secretariat of the Presidency, municipalities, and others, while the Ministry of Education lacks a more standard-setting, regulatory, and coordinating role with respect to the quality and siting of new schools. In fact, there is no diagnostic assessment of the type and quality of existing school infrastructure and equipment, which makes it difficult to target policies to meet new school infrastructure and maintenance needs. According to the 2004-2007 National Education Plan, the government intends to achieve universal preschool and primary education by expanding models based on decentralized management principles and active participation by parents and the community as a whole, along the lines already being developed by PRONADE.
- 1.23 Furthermore, with a view to enhancing the quality of education, the authorities have begun to implement a targeted strategy called “Let’s Save First Grade,” the aim of which is to lower the repetition and school dropout rates in the first three grades of primary school, especially in rural and indigenous areas. Such areas exhibit high repetition and dropout rates in primary education, especially in first and second grade, as well as low coverage in primary education and teachers who have had little professional training.
- 1.24 **Health.** Guatemala’s basic health indicators have improved somewhat in recent years. The infant mortality rate has fallen from 73 to 39 per 1,000 live births and life expectancy has increased from 60 to 65 years. The country’s demographic and epidemiological profile shows high fertility rates, a low percentage of older adults, high maternal-child morbidity and mortality rates, and a high incidence of chronic malnutrition and infectious diseases. Respiratory illnesses and diarrhea are the leading causes of morbidity in Guatemala, particularly among children under 6.
- 1.25 The country has major basic health care coverage problems, especially in the poorest municipalities with a high concentration of rural and indigenous inhabitants. This is reflected in a high level of maternal-child morbidity and mortality for reasons that are avoidable and preventable. There are approximately 23,340 towns and villages in Guatemala, and one of the problems for health care

systems and provision stems from the scattering of the population in rural communities of fewer than 2,000 inhabitants, which makes it difficult to deliver either preventive or curative health services that might reduce the high levels of maternal-child mortality. The situation is especially critical in the municipalities with the lowest food security indicators in the country.

- 1.26 Thus, there are marked differences between the poor and the nonpoor with respect to health status and access to services. Seven out of every 10 children suffering from diarrheal and/or respiratory diseases are poor. Studies of social indicators repeatedly show that the inhabitants of rural areas (where 75% of persons live below the poverty line), indigenous groups, and women are by far the worst off. At present, the Ministry of Public Health and Social Welfare (MSPAS) provides part of the poor population—approximately 3.2 million people—with a Basic Health Services Package (PBSS) outsourced to nongovernmental organizations (NGOs), at an annual per capita cost of only US\$4.2, an amount that severely limits the extent of the health care that can be provided. This was shown in a recent household survey commissioned by the MSPAS for a representative sample of the population receiving NGO health care. The findings revealed, for instance, that only 25% of pregnant women receiving this form of health care had at least two prenatal checkups and only 54% of children ages 12 to 23 months had been vaccinated against measles, mumps, and German measles (rubella).
- 1.27 In this context, the top priority for the MSPAS is to expand and improve basic health care coverage, extending it to the 39 most vulnerable municipalities in the country—the focus of the “Guate Solidaria” strategy—in such a way as to help lower the maternal-child mortality rate in the poor urban and rural communities with a high concentration of indigenous persons. This will be achieved primarily by hiring NGOs with the capacity to extend basic health care coverage to the most remote parts of the country. This will entail improving the PBSS by ensuring that it provides more comprehensive health care for women and children, and a better health environment, at an annual cost per capita of US\$10 in 2005 and US\$12 as of 2007.
- 1.28 **Food security and nutrition.** Malnutrition constitutes a major health challenge, and one that is particularly prevalent among the rural poor and indigenous population. Although incidence statistics show an improvement between 1987 (59%) and 2000 (44%), the rates for both chronic malnutrition (stunted growth) and general malnutrition (low weight for age) are still very high. In Guatemala, 756,000 children under 5 suffer from chronic malnutrition. It is vastly more prevalent in the poorest quintile of the population (62% vs. 16% for the least poor quintile) and among the indigenous population (where almost twice as many children suffer from chronic malnutrition, compared to the nonindigenous population—58% vs. 33%). Malnutrition is also considerably more common in rural areas than in the urban sector (51% vs. 32%). The incidence of malnutrition is especially marked (with rates as high as 57.4%) in the south-western and north-western regions, where the

land is more arid. There is a high degree of correlation between malnutrition and health problems, the low level of education of poor children, and high infant mortality rates (up to 50 deaths per 1,000 live births in certain regions). General malnutrition is slightly less prevalent than chronic malnutrition among the nonpoor compared to the poor, but even greater among those living in extreme poverty (38.4% vs. 31.9%).

- 1.29 To assist families with malnourished children under 5, the idea is to apply the “Growing Well” program’s intervention model, sponsored by the First Lady’s Social Works Secretariat (SOSEP), at the family and community level. This entails training nutrition monitors, from within the communities, to offer families guidance and support and to facilitate access to services. At the same time, to address the food security needs of schoolchildren, the plan is for all schools serving participating communities to have at least one food program. Finally, it is worth pointing out that the government has taken the initiative of appointing a Commissioner for the Fight against Hunger to increase the number and improve the coordination of public programs and benefits aimed at reducing food vulnerability among children.
- 1.30 **Social funds.** Generally speaking, SIF and FONAPAZ have managed to expand infrastructure in rural areas, but they have also demonstrated certain shortcomings with respect to targeting the poorest and most vulnerable segments of the population, in the sense that their resources have not necessarily reached the most isolated communities. Although 46% of social investment is channeled through the social funds, there is duplication of efforts due to poor coordination among them, as well as with the work of the line ministries and local governments. In general, the funds show little consideration for strategies and planning in the sectors in which they intervene, which weakens the steering role of sector institutions.
- 1.31 In order to coordinate the works and activities of the social funds, prevent duplication, and respond to the demands of the population, the government has decided to establish a National Social Funds Coordination Board (DNCF). This coordination mechanism will seek to enhance the quality of social investment. Its specific objectives will be to: (i) improve the quality of works; (ii) reduce overlapping in social investment; (iii) observe ministerial directives and guidelines; (iv) increase the efficiency of the social funds by cutting their operating costs; and (v) achieve greater transparency in the processes of selecting, awarding, executing, supervising, and sustaining works and projects. The mechanism will rely on legally established organizational structures at the national, departmental, and municipal levels.
- 1.32 The DNCF will comprise the Director of FONAPAZ, the President of SIF, the President of the Municipal Development Institute (INFOM), the Executive Secretary of the Presidency, the Secretary of the Planning and Programming Secretariat of the Presidency (SEGEPLAN), and the directors of other social funds

selected by the Social Cabinet. Its job will be to receive, process, and execute—in a coordinated manner—social investments shaped by Social Cabinet and/or sector ministry policies. The Board will, likewise, receive, process, and execute priority requests by the population identified in a participatory manner through the Development Councils, provided they are consistent with Social Cabinet policies.⁶

- 1.33 Investments carried out by the social investment funds are also to be duly registered and ranked in terms of priority. They will have to be included in the Integrated Financial Management System (SIAF) and the National Public Investment System (SNIP).
- 1.34 **National System of Indicators (SNI).** The program will assist with the design and implementation of this system, which will make it possible to monitor and evaluate services offered by the State, as well as their impact on the welfare of the population, especially that of the segment living in extreme poverty. Currently, the government is developing a set of social and economic indicators compatible with the National Statistics System (SEN) and with the drawing up of a performance-oriented national budget. To that end, an interagency technical committee was formed, coordinated by SEGEPLAN, the National Institute of Statistics (INE), and Ministry of Public Finance (MINFIN). In addition, an evaluation unit will be designed and implemented in SEGEPLAN, given the latter role as State planner function, with a mandate to keep track of the process and support institution-strengthening in this field. This unit will also be responsible for monitoring poverty trends and evaluating the effectiveness of poverty reduction policies.

E. The country's sector strategy: the "Guate Solidaria" strategy

- 1.35 To address the above-mentioned issues and enhance the efficiency and targeting of social investment toward the poorer segments of the population, the Government of Guatemala is designing a comprehensive poverty reduction and social protection strategy, known as "Guate Solidaria", for rural communities in the municipalities with the least food security, with particular attention to families with malnourished children under 5.
- 1.36 Within the framework of the "Let's Go, Guatemala" Economic and Social Reactivation Program, the "Guate Solidaria" strategy constitutes the social component of the 2004-2008 Government Plan designed to improve coordination of the State's social functions. Among the principal challenges it mentions are: the reduction of child malnutrition in municipalities with the least food security; coordinating efforts to reach the families hardest hit by chronic poverty; assisting youths in high-risk situations; and safeguarding both cultural diversity and respect

⁶ Social Investment Coordination Mechanism (Phase I), Office of the Vice President of the Republic of Guatemala.

for specific cultural needs in order to achieve effective social policy. To tackle those challenges, the idea is to focus on actions in the following areas: (i) social protection; (ii) education and training; (iii) basic social services; and (iv) family-income-raising projects. The goal is to have ensured, by the end of the current government's term, that the poorest municipalities have access to basic social services in education, health care, water, and sanitation, and have managed to weave the networks they need for local development.

- 1.37 **Characteristics of the “Guate Solidaria” strategy.** The strategy is comprehensive and intersectoral, with simultaneous subnational interventions, at the community and municipal level, in three spheres: family, community, and municipality. In order to offer comprehensive responses to the critical problems that constitute barriers to the social inclusion of families living in extreme poverty and achieve even results, an appropriate management model is being developed to ensure the necessary linkages and coordination at the municipal and community level among all the competent government agencies and community organizations, technical personnel, health workers, and nutrition monitors.⁷
- 1.38 **Implementation of the strategy.** The strategy is expected to achieve its objectives to the extent that the interventions it prompts match the cultural and social profiles of the potential beneficiaries. To ensure that match, participatory mechanisms will be established to enable families and local authorities to cooperate with one another in jointly determining which actions are top priorities for overcoming the principal risk factors. To that end, a community management model is being worked out, with the idea of both enhancing local skills and strengthening social capital through confidence-building measures and actions fostering community organization and cooperation. The strategy is to be implemented through existing services and programs, tailored to meet the requirements of a comprehensive and participatory approach. Key agencies combining efforts to implement the strategy include MSPAS, MINEDUC, SOSEP, SIF and FONAPAZ. Other welfare and social protection programs and benefits will gradually be incorporated. The members of the communities involved will play an active part in ensuring that outcomes for families and for the community as a whole meet expectations.
- 1.39 The decentralization legislation currently in force in Guatemala recognizes the importance of community participation as a fundamental input for national development. The Law on Urban and Rural Development Councils stipulates that Community Development Councils (COCODES) shall comprise the Community Assembly, made up of the residents of a single community, and the Coordination

⁷ For a more detailed description of the strategy, see:
<http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=367248>
<http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=367250>

Organ, whose composition is determined according to municipal regulations currently in effect.

- 1.40 Thus, as the COCODES have all the powers and functions required to make them key players in implementation of the strategy, the actions of the various institutional providers of services, assistance, and/or benefits are to be channeled through a community management model in which the COCODES will perform especially important functions. The plan is to boost their capacity to perform those functions, including social audits to guarantee transparency and equity in interventions and effective “Guate Solidaria” outcomes. The preparations for implementation of the strategy will include scrutiny of the operational status of the COCODES in the communities selected, with a view to gauging not just operational readiness, but also organizational capacity and previous experience with the kind of programs or projects to be included in the strategy.
- 1.41 The strategy is directed toward all rural community families in the municipalities selected on the basis of their low level of food security, offering services, assistance, and/or benefits, above all in health, education, food, and nutrition. To that end, it will strengthen the management and coordination skills of participating municipalities. There will also be special, high priority interventions for families with children under 5 suffering from malnutrition. Actions will be focused on: (i) *identification* (registration at the Registry Office and IDs) as a prerequisite for citizenship and access to benefits and services; (ii) *food and nutrition*, which, among other things, will include school meals, training and support for community nutrition monitors, food production, and the adoption of good hygiene; (iii) *health*, guaranteeing provision of a basic care package for children, tailored to different age groups, pregnant women, and older adults, and installation of a preventive community health care model; (iv) *education*, ensuring that children ages 5 to 12 attend school; (v) *basic services infrastructure*, guaranteeing appropriate and viable water and sanitation services ; (vi) access to *housing*; (vii) income generation and support for productive activities; (viii) *community participation and strengthening of the COCODES*; and (ix) *natural disaster risk reduction*, thanks to the design of early warning systems and preventive mechanisms.
- 1.42 These actions will aim to ensure that families and communities attain a certain minimum standard of living, consisting of a set of baseline, monitoring, performance and graduation indicators for indicators. Comprehensive community interventions last a full two years, in the course of which individual families and the community as a whole are expected to achieve the minimum pre-established standards of living. Table I.1 illustrates the kind of minimum standards contemplated in the strategy.

Table I.1
Minimum conditions to be attained as a result or outcome of the “Guate Solidaria” strategy

Families with malnourished children under 5	Families in the community	Community	Municipality
The family learns and practices good hygiene.	Family members receive the basic health services package.	The community has some kind of sanitation system and the basic know-how needed to handle it appropriately.	The municipal authorities have a system for recording and monitoring actions carried out as part of the “Guate Solidaria” strategy in the selected communities.
The family produces nutritious foods for its own consumption.	The children in the family ages 6 to 9 attend pre-primary or primary school, as the case may be.	The community has a school or access to an educational establishment of some kind.	The municipal authorities keep an up-to-date Consolidated Register of Beneficiaries of the actions carried out in selected communities under the “Guate Solidaria” strategy.
The family has a healthy and balanced daily diet.	The children attending school have a school meal.	The community has a health care facility or access to health care.	The municipal authorities have an accountability mechanism and use it regularly.

1.43 **Geographic targeting.** Geographically, the strategy will target the most vulnerable municipalities from a social and food security point of view. In all, 110 municipalities were selected on the basis of a food security vulnerability index⁸ constructed from extreme poverty, malnutrition, and food availability variables, as well as others based on agricultural and road infrastructure considerations (see Table I.2).

⁸ Index calculated as part of the joint project conducted by the Ministry of Agriculture and Food’s Geographical Information Systems Laboratory and the World Food Programme (WFP). The project’s findings were published in a report entitled “Cartografía y Análisis de la Vulnerabilidad a la Seguridad Alimentaria en Guatemala” [Cartography and Analysis of Food Security Vulnerability in Guatemala] (2002).

Table I.2
VULNERABILITY ANALYSIS AND MAPPING (VAM) INDEX – Food Security
Vulnerability

Variables / Weighting	Indicators	Weightings
Food situation index 40%	▪ Percentage living in extreme poverty (access)	35%
	▪ Percentage of chronic malnutrition (consumption)	40%
	▪ Availability of food	25%
Threats index 25%	▪ Threat of drought	60%
	▪ Threat of frost	20%
	▪ Threat of flooding	20%
Response capability index 35%	▪ Road density in the municipal district	40%
	▪ Availability of farm land (land use)	60%

Source: “Guate Solidaria” Program, Selection Methodology.

- 1.44 Then, it was decided to select all rural communities identified on the basis of the 2002 population census as forming part of the chosen municipalities. However, as implementation of the strategy will be gradual, an order of precedence will be established based on the unmet basic needs (UBN)⁹ indicator and priority will be accorded to communities having the largest number of households with the largest simultaneous UBN. Within the communities, all the families will receive benefits, although those with malnourished children will receive special attention in order to reduce the scale of this problem. The idea is to begin implementing the strategy in 100 communities in 23 municipalities showing the highest levels of food vulnerability, after it was ascertained that, according to the poverty map, they correspond to the poorest municipalities in rural areas. The list of communities ranked according to the number of unmet basic needs will enable priorities to be set and permit the gradual incorporation of new communities to receive assistance, depending on the institutional capacity of the participating agencies. It is estimated that approximately 165,000 families in over 2,000 communities will receive assistance in the first three years, that is to say, more than 740,000 people. The target is to reach the 39 most vulnerable municipalities in the first four years of

⁹ To measure poverty in Guatemala based on unmet basic needs (UBN), the following variables are considered: (i) housing quality (walls and floor); (ii) crowding (more than 3 people per room); (iii) origin and supply of water (source and type of supply); (iv) access to sanitation services (including an excreta removal system); (v) access to primary education (attendance); and (vi) subsistence capacity (level of education of heads of household and number of people dependent on each income-earner). As each household may have between 0 and 6 UBN (the latter being the poorest), priority will be given to the communities with the largest number of households with the highest number of simultaneously unmet basic needs.

implementation, thereby assisting over one million children and adults in the poorest rural communities.

- 1.45 **Consolidated Register of Beneficiaries (RIB).** Built into the strategy, prior to implementation, a single register of beneficiaries (of families and communities) will be constructed for use as a management tool by participating entities and to facilitate the gathering and processing of the data supplied by all participating services and programs.¹⁰ That Register will serve for the construction of the baseline and to monitor interventions. The registration system will be crafted in such a way as to consider the minimum conditions established in the strategy for each sphere of intervention and the instruments that participating institutions will use to certify them. A program catalogue is being drawn up for that purpose. In the family sphere, a record will be kept of each member's situation, while for the community the system should have a specific descriptor (single code) for each community, which could be tied in with that of the families in it. SEGEPLAN will be responsible for the upkeep of this system, to which end it will delegate tasks to technical units in the Departmental Technical Committees, which have computers connected via the Internet for gathering and forwarding information to the "Guate Solidaria" strategy's central coordination units.

F. The Bank's sector strategy

- 1.46 **The Bank's strategy.** The principal objective of the country strategy with Guatemala (currently in preparation) is to contribute to a reduction of poverty and exclusion. One of the three areas the Bank will focus on is social management, with a view to enhancing the efficiency of social management and expenditure, as a means of reducing poverty and exclusion and laying the foundations for sustainable economic growth. The program under review is entirely compatible with this strategy.
- 1.47 **Lessons learned.** The Bank has not granted Guatemala sector loans for social reform. However, in order to draw on lessons learned in projects similar to the one proposed, the project completion reports of four operations were reviewed. These were: Transition and Social Protection Program (HO-0145), Social Sector Program in Support of the Poverty Reduction Strategy (BO-0203), Social Sector Reform and Social Protection Program (BR-0308), and the Program for Social Protection and Mitigation of the Impact of the Crisis on the Poor (AR-0295). The principal lessons learned and incorporated in the design of the operation under review are: (i) One institution endowed with a political mandate and technical capacity must coordinate and monitor the institutions taking part in the program; (ii) in fiscal crisis situations, it is important to protect innovative high-priority social programs and to monitor

¹⁰ Design of the RIB is being financed with nonreimbursable technical-cooperation resources, and includes preparation of simple, standardized sheets, the software, and training.

their outcomes closely; (iii) The instruments the Bank should use to evaluate compliance with macroeconomic conditionality must be clearly established; (iv) Parallel technical-cooperation activities are vital to support compliance with conditionalities and to stabilize the executing unit; (v) Conditionalities must be straightforward, feasible, and high-impact; and (vi) The program must “own” reforms and actions emerging from the sector institutions themselves (ownership).

- 1.48 **The program’s rationale and strategy.** The sector program is well suited to achieve the proposed objectives, since it supports far-reaching changes in Guatemalan social policy and the design and implementation of a strategy—“Guate Solidaria”—aimed at targeting the provision of government services and social expenditure toward the poorest segments of society, as part of a geographical targeting and comprehensive assistance effort. Today, social policy is manifested in poorly targeted and uncoordinated interventions and social programs. The comprehensive strategy now envisaged is expected to be implemented over a five-year period. At the same time, the program supports the construction and consolidation of a range of social services, mainly in education, health, nutrition, and social infrastructure, the key pillars of the strategy in question. Within this framework, and in a context of fiscal constraints, the program supports actions to improve the targeting and quality of social expenditure by protecting budget funds for priority programs in education, health, food security, and nutrition. The program includes monitoring using midterm indicators and the corresponding annual targets, and the linking of those targets to the proposed program’s matrix of conditions assures the necessary bridge between policy measures and sector performance.

G. Coordination with other donors

- 1.49 During program preparation, periodic meetings have taken place with representatives of the World Bank, the IMF, and other international donor agencies in Guatemala. Above all, the recommendations contained in the various studies and sector notes produced by the World Bank are compatible with this program’s policy proposals and with the choice of programs to be protected. Specifically in the social arena, the World Bank is financing a program to make basic education universal and a program for local development and reconstruction. The objective of the first project is to improve coverage, quality, and equity in basic education. The second project aims to enhance the living conditions of majority-indigenous populations living in extreme poverty in 16 municipalities, by financing social and economic small infrastructure and building the capacity of municipal governments. These programs will provide support for achieving the proposed objectives of the program described herein. Moreover, the institutions in the United Nations system are participating principally in the areas of social protection, education, health, and population.

II. THE PROGRAM

A. Objectives

- 2.1 The program's general objective is to assist the government in its efforts to enhance the efficiency and targeting of social expenditure and investment toward the most vulnerable segments of the population and to establish results-driven management mechanisms in the social sphere at the national level, by protecting the budget needed to achieve those results. In order to attain these objectives, program disbursements will be contingent on completion of the design, and beginning of implementation, of the "Guate Solidaria" strategy, and evidence that protection will be afforded to the social programs that will make up the social protection network, thereby ensuring that annual coverage targets are met.

B. Description and disbursement conditions

- 2.2 Disbursements under the program will be contingent on actions that may be classified under three program component headings, which will be described below. These components must be implemented in a macroeconomic context that is consistent with the program objective.
- 2.3 The first component requires presentation to the Bank of the final version of the "Guate Solidaria" strategy, and initial implementation in communities pertaining to 39 prioritized municipalities. This component will call for sectoral actions targeting the municipalities prioritized by "Guate Solidaria". The second component includes an action designed to improve the efficiency of social investment instruments, namely the setting up of a social program evaluation and monitoring system in Guatemala. Disbursement of the third component is contingent on the achievement of specific midterm targets and budgetary protection of priority programs in education, health, food security, and nutrition.

1. Component 1. Implementation of the "Guate Solidaria" strategy

- 2.4 The objective of this component is to support the design and implementation of the "Guate Solidaria" strategy for poverty reduction and social protection in the short, medium, and long term. The strategy aims to: (i) optimize public resources geared to reducing extreme poverty in Guatemala; (ii) broaden the impact of actions taken in education, health, food security, and nutrition; and (iii) carry out comprehensive interventions in the rural communities most exposed to social risks, and which have least access to services and programs, paying particular attention to families with malnourished children under 5. In addition, the government will commit to protecting the funds needed to achieve these objectives.

- 2.5 **Disbursement conditions.** Requirements for release of the *first tranche* will be: (i) presentation of the blueprint for the “Guate Solidaria” strategy and Plan of Action, in order to begin gradual implementation in the prioritized municipalities in the nine departments and in at least 100 communities in approximately 23 prioritized municipalities, which means that more than 5,000 beneficiary households and over 24,000 people will be participating; (ii) evidence that SEGEPLAN has been designated as the entity responsible for coordinating the “Guate Solidaria” strategy and that the necessary human resources have been assigned to facilitate coordination of the strategy; and (iii) signature of the agreements with MINEDUC, MSPAS, and SOSEP needed for formal adoption of the strategy.
- 2.6 Requirements for release of the *second tranche* are: (i) evidence of implementation of “Guate Solidaria” in at least 100 communities in 23 municipalities, based on the RIB system; and (ii) the design of an Action Plan for expanding the “Guate Solidaria” strategy to at least 16 additional prioritized municipalities.
- 2.7 A condition precedent to release of the *third tranche* will be a report on the outcomes of the interventions in the first 23 municipalities in which the strategy has been applied and a progress report on interventions in the remaining municipalities, based on the RIB system.
- 2.8 **Social sector participation in the “Guate Solidaria” strategy.** In order to achieve expected outcomes, the government will be required to bolster provision of social services in the targeted municipalities. The actions to be undertaken to achieve this objective are listed below. Annex III indicates the means for verifying compliance with the disbursement conditions.
- 2.9 **Education sector.** The objective is to enhance the quality and efficiency of primary education, especially in the first and second grades, given that they are the levels with the poorest performance in the school system. It will also be necessary to help MINEDUC recover its policy-setting, regulatory, and coordinator role with regard to the creation and maintenance of school infrastructure.
- 2.10 **Disbursement conditions.** For the release of the *first tranche* the following must be presented: (i) a plan for implementing the “Let’s Save First Grade” program, which incorporates its strategy of focusing on the municipalities prioritized by “Guate Solidaria”; and (ii) the blueprint for a school infrastructure census that will make it possible to develop a diagnostic assessment of the type and quality of the existing school infrastructure and equipment. The school census would begin in the municipalities prioritized by “Guate Solidaria”, in order to ensure that MINEDUC quickly acquires appropriate information for increasing educational coverage, especially of primary education.

- 2.11 Release of the *second tranche* will be contingent on presentation of: (i) the progress report for the “Let’s Save First Grade” program, with emphasis placed on the prioritized municipalities; (ii) evidence that the census was conducted in at least the communities in the initial phase of “Guate Solidaria”; and (iii) evidence that the single set of regulations on school infrastructure was prepared.
- 2.12 Conditions for release of the *third tranche* are: a final report on the results of the “Let’s Save First Grade” program, entry into force of the single set of regulations on school infrastructure, and dissemination of the results of the school infrastructure census.
- 2.13 **Health sector.** The objective pursued by strategic actions in this area is to support MSPAS efforts to expand and improve basic health services coverage in the poor municipalities targeted by “Guate Solidaria” because of their higher food security vulnerability and high concentration of rural and indigenous inhabitants. To achieve that goal, contracts will be awarded to NGOs with the capacity to reach the most remote areas of the country in order to strengthen the primary health care model, with a special emphasis on disease prevention and health promotion. The idea is therefore to improve the composition of public expenditure on health by tilting it in favor of primary health care and raising its currently low levels (per capita and as a percentage of GDP), but targeting additional resources toward the poorest municipalities in the country.
- 2.14 **Disbursement conditions.** A requirement for release of the *first tranche* will be presentation of the technical proposal for the expansion and improvement of basic health services coverage containing at least: (i) the action plan for implementing it in the municipalities prioritized by “Guate Solidaria”, in line with annual demographic coverage targets; (ii) the definition of the expanded and enhanced PBSS, together with the justification of its annual per capita cost; (iii) the results of the evaluation of the capacity of the NGOs contracted to provide the services; and (iv) the technical design for the monitoring and evaluation system.
- 2.15 For release of the *second tranche*, evidence of the following will have to be shown: (i) expansion and improvement of PBSS coverage, by focusing on the most cost-effective services and raising the quality of the whole package of basic services, to reach a subsector of 250,000 beneficiaries living in the municipalities targeted under the “Guate Solidaria” strategy; and (ii) implementation of the management monitoring and evaluation system by the MSPAS follow-up, monitoring, and evaluation unit.
- 2.16 Lastly, release of the *third tranche* requires: (i) evidence that PBSS coverage has improved and expanded to 500,000 beneficiaries living in the municipalities targeted under the “Guate Solidaria” strategy; and (ii) a report on initial evaluation of the system for monitoring and evaluating management of procedures and results

achieved thanks to the expansion and improvement of basic health services coverage.

- 2.17 **Food security and nutrition.** Malnutrition is triggered by, among other factors, educational shortcomings in parents, water quality-related diseases (diarrhea), maternal undernourishment, premature weaning, lack of family planning, culturally induced eating habits, and inadequate access to nutritious foods. Consequently, comprehensive programs are required, targeting the segments of the population at highest risk, combined with the provision of well coordinated and linked actions, benefits, and services at the national and departmental levels. In this, the President's Commissioner for the Fight against Hunger will play a key role by coordinating public food and nutritional services in such a way as to reduce food insecurity in the municipalities.
- 2.18 **Disbursement conditions.** Prior to release of the *first tranche*, it will have to be shown that: (i) a system has been designed for monitoring and tracking food and nutritional status for the "Growing Well" program; and (ii) comprehensive operations have got under way with families with malnourished children under 5 in communities pertaining to at least two of the prioritized rural municipalities where interventions will begin.
- 2.19 For release of the *second tranche*, a midterm results report must be presented on beneficiaries served in the municipalities prioritized in the initial phase, on the basis of the RIB.
- 2.20 *Third tranche* resources may be released upon presentation of a report on the results of the interventions on behalf of the beneficiary children, families, and communities, based on the RIB.
- 2.21 **Social funds.** The objective pursued by the strategic actions contemplated in this area is to raise the efficiency and improve the targeting of social fund resources. For that reason, disbursements are contingent on actions to enhance coordination of the interventions of the principal funds at the subnational level.
- 2.22 **Disbursement conditions.** For release of the *first tranche*, evidence will need to be shown that an Executive Order (*Acuerdo Gubernativo*) exists, establishing the DNCF. For release of the *second tranche*, it must be shown that the DNCF has established criteria for maximizing social fund investments in the municipalities. Along these lines, common criteria will be set for selecting beneficiaries and projects, and project costs will be standardized. Lastly, release of the *third tranche* will be contingent on the presentation of evidence that the programming of the social funds for 2007, at least in the municipalities prioritized by the "Guate Solidaria" strategy, is consistent with the criteria set by the DNCF.

2. Component 2. System for monitoring and evaluating social policy

- 2.23 The objective pursued by this component is to move ahead with establishing a performance-oriented social expenditure management system, by establishing clear performance indicators for each sector that will make it possible to measure results. Disbursements are therefore conditional upon actions aimed at designing and implementing a national system of indicators (SNI).
- 2.24 ***Disbursement conditions.*** Evidence that the institutional diagnostic assessments on indicators that will be used for the National System of Indicators will be a prerequisite for release of the *first tranche*. For release of the *second tranche*, evidence must be presented of the progress made on the joint work plan by the borrower, SEGEPLAN, and the National Institute of Statistics in identifying performance indicators, at least for MINEDUC and MSPAS. Release of the *third tranche* will require presentation of evidence demonstrating that the 2007 budget for MSPAS and MINEDUC was prepared in such a way that budget allocations are linked to targets.

3. Component 3. Prioritization, protection, and monitoring of social programs

- 2.25 The objective of this component is to instill results-driven management in Guatemala's education, health, and nutrition systems. For this, it has been agreed to employ a limited number of midterm indicators, combined with annual targets through 2007. If the midterm targets are met, it is very likely that there will be a major improvement in end-result indicators for the social sector (the maternal-child mortality rate, for instance, or school coverage and retention rates, etc.). The condition for release of each tranche will be the achievement of the targets established at the time of the previous year's disbursement. An estimate has also been made of the volume of public expenditure that each of the aforementioned sectors will require in order to meet the pre-established targets. Therefore, an additional condition for disbursements will be that the government commit to allocating, protecting, and executing the budgetary resources needed to reach those targets. Furthermore, given the priority that the government attaches to these programs, budgetary protection and execution are expected to be sustainable in the medium and long term. Annex I lists the targets agreed upon, and Annex II provides a list of the budget items to be protected.
- 2.26 In the education sector, the "Let's Save First Grade" program, which aims to enhance the quality of primary education, will be protected.
- 2.27 In health, the health services coverage expansion program was selected. Budgetary protection would ensure that targets are met, most of them being geared to improving the health status of the poorest segments of the population, especially that of mothers and children.

- 2.28 To improve the nutritional status of children under 5, public expenditure for the “Growing Well” program coordinated by SOSEP will be protected. That program uses an innovative self-management model run by women, who are conceived of as agents of change in improving the nutritional status of their children and the community. Fundación del Azúcar has been successfully applying this model in 72 communities pertaining to 22 municipalities on the southern coast for the past three years. The program uses community organizations and women trained as nutrition monitors to identify families with malnourished children, and the Ministry of Health then provides care for the malnourished children. The monitors support and educate the mothers in various aspects of nutrition, consumption of nutritious foods, hygiene, preventive health care, and other relevant matters.

C. Amount of financing

- 2.29 The total loan amount would be US\$100 million, on the financial terms applicable to Ordinary Capital loans. Of that amount, up to US\$72.2 million will be from the Intermediate Financing Facility account (IFF), as requested by the Guatemalan authorities. The total amount of the loan is considered appropriate and commensurate with the scope and difficulty of the policy measures to be implemented. Thus, the program supports a substantial change in Guatemalan social policy, since it constitutes the country’s first comprehensive effort to direct social investment to the poorest communities in rural areas. The amount of the loan is warranted for the following reasons: (i) the savings expected to be generated by enhancing the efficiency of the primary education, health, and nutrition systems (in education alone, for instance, the actions contemplated in the program are expected to reduce losses from grade repetition and dropouts by US\$6 million over the next three years); (ii) improvements in the targeting of social investment by the social funds primarily; and (iii) the budgetary protection to be given to priority social programs in Guatemala totals over US\$100 million (see Annex II).

III. PROGRAM EXECUTION

A. The borrower and executing agency

- 3.1 The loan will be granted to the Republic of Guatemala, and the financing will be channeled through the National Treasury. The executing agency will be the Ministry of Public Finance (MINFIN), which will receive technical and operational support from Secretariat of Planning and Programming of the Presidency (SEGEPLAN). It will be responsible for the administration, monitoring, and overall evaluation of the program and act as the Bank's principal interlocutor.
- 3.2 As the program executing agency, MINFIN, supported by SEGEPLAN, will perform the following functions: (i) coordinate execution of program activities; (ii) ensure compliance with the conditions indicated in the policy matrix and in the physical and financial targets matrix; (iii) elicit appropriate coordination among the participating entities and timely enactment of the measures required to achieve expected outcomes; (iv) allocate funds for protected program according to schedule; and (v) monitor financial and physical execution of the program.
- 3.3 MINFIN, supported by SEGEPLAN, will chair a Coordination Committee composed of representatives of the Ministries of Education and Health, SEGEPLAN, First Lady's Social Works Secretariat (SOSEP) and the Directors of the Budget and Planning Offices of the sector ministries.

B. Program execution and administration

- 3.4 The Ministries of Education and Health, SEGEPLAN, and SOSEP will be responsible for carrying out the actions in their spheres of competence supported by the program, as indicated in the policy matrix. Through the Directorate of Public Credit (DCP) and with technical support from SEGEPLAN, MINFIN will be responsible for the administration, technical monitoring, and overall evaluation of the program, to which end it will: (i) compile and submit to the Bank all information required for each tranche release to be authorized, together with the corresponding means of verification; (ii) act as the government's principal technical interlocutor vis-à-vis the Bank; (iii) administer fast-disbursing loan resources in accordance with the Bank's rules for sector loans; (iv) prepare the reports needed for visits by Bank missions and a final program evaluation report; and (v) oversee the achievement of targets and the budget allocations and protection agreed upon (see Annexes I and II).
- 3.5 The borrower will be responsible for: (i) keeping, in coordination with the executing agency, accounting and financial records related to the use of the loan resources and demonstrating that those resources were used for the purposes of the loan (reforms, policy changes, etc.); (ii) preserving the documentation supporting

the disbursements made, as well as the supporting documentation for compliance with the conditions set for the release of each tranche, pursuant to the terms of the loan document (this information must be available for possible inspections by the Bank and/or external auditors); (iii) preparing and presenting disbursement requests to the Bank; and (iv) if so requested, preparing financial statements on the use of resources. The borrower will also hold special and separate bank accounts for handling the financing resources and will present proof that said accounts have been opened to the Bank as a condition precedent to the first disbursement. The Bank reserves the right to request that the borrower submit financial reports on the use of the loan resources, audited by independent auditors deemed eligible by the Bank, in accordance with terms of reference approved by the Bank.

- 3.6 Various units within the sector entities participating in the program have also been designated as responsible for their area. In MINEDUC, the responsible unit will be the Office of the Technical Vice Minister of Education; in MSPAS, the Office of the Minister of Health; in SEGEPLAN, the Office of the Undersecretary for Social and Sector Policies; and in SOSEP, the Office of the Secretariat.
- 3.7 Responsibility for national coordination of “Guate Solidaria” strategy implementation will fall to SEGEPLAN, which will serve as the Executive Secretariat. It, in turn, will be supported by a National Technical Committee. That Committee will comprise representatives of the government entities providing the program’s services at the subnational level. The National Association of Municipalities (ANAM) will be appointed a permanent member of that Committee. Where necessary, Technical Working Committees will be formed for specific areas of activity, which will help ensure interagency coordination. In the participating departments, a coordination body will be set up, headed by the Governor. Its technical secretariat will be the departmental office of SEGEPLAN, and participants will include the sector delegates and mayors of the participating municipalities.
- 3.8 Two nonreimbursable technical-cooperation operations support program execution. The first, which has already been approved, has an available balance of US\$675,000 (ATN/SJ-7579) that would be used to finance the following activities: (i) design and implementation of the RIB; (ii) the crafting of social audit mechanisms; (iii) the community intervention models to be used; and (iv) preparation of the Operating Regulations for strategy implementation. They would also finance the services of personnel needed to implement the strategy, such as: (i) a technical advisor for SEGEPLAN’s Under-secretariat for Planning and Programming; and (ii) professional staff to support SEGEPLAN by coordinating and monitoring the strategy and registration of beneficiaries at the departmental level. The second technical-cooperation operation, for US\$350,000, is expected to be approved in December 2004 to finance the design of the evaluation, the establishment of control groups, and the baseline surveys in the communities making up each control group.

C. Execution period and disbursement schedule

- 3.9 The execution period will be approximately 24 months. If the program is approved in December 2004, it is estimated that the first disbursement of US\$30 million will be made in the first quarter of 2005, once legislative approval of the loan has been obtained. Assuming that the requisite conditions are met, the second disbursement of US\$30 million would take place in the first quarter of 2006, and the third disbursement (US\$40 million) in the first quarter of 2007. Release of each tranche is dependent upon fulfillment of the conditions set forth in the policy matrix (Chapter V) and reflected in the loan contract.

D. Monitoring and evaluation

- 3.10 Performance and impact indicators have been agreed upon with the government and are expected to be achieved thanks to the measures proposed in the policy matrix and in the targets and budget protection matrix. Monitoring and evaluation of implementation of the “Guate Solidaria” strategy will involve tracking changes in a set of minimum living standard conditions at the family and community level and in municipal management (see Table I.1).¹¹ The information regarding these minimum conditions needed to establish the baseline will be gathered at the start of the intervention, when information on beneficiary families is compiled by using the RIB.
- 3.11 Given the innovative nature of the “Guate Solidaria” strategy in Guatemala, the idea is to establish the conditions for an impact assessment to be carried out two years after the start of interventions in communities pertaining to the prioritized municipalities. To that end, the program would finance the development of an experimental evaluation methodology designed to determine whether the strategy had the desired impacts on the families and communities that benefited from comprehensive interventions over a period of at least two years. Given the need to separate the effects of the interventions from nonprogram-related factors, it is considered necessary to conduct this evaluation by using comparable control groups that allow for an assessment of the situation at least at two separate intervals: when the baseline is established for the first 100 communities to be served, and two years after interventions began in those communities. Therefore 100 comparable communities must be selected that are expected to benefit from the interventions until at least two years into implementation of the strategy in the communities served.
- 3.12 As regards Component 3: prioritization, protection, and monitoring of social programs, agreement was reached on indicators and annual targets that will measure the program’s impact on human capital development and poverty

¹¹ *Elementos centrales del diseño de la estrategia de la intervención integral Guate Solidaria* [Core factors in designing the “Guate Solidaria” comprehensive intervention strategy], SEGEPLAN, September 2004.

reduction in the prioritized municipalities. The pursuit and achievement of these targets for 2005, 2006, and 2007 (see Annexes II and III) will mean that the Government of Guatemala is making progress on its poverty reduction objectives.

IV. VIABILITY AND RISKS

A. Technical and institutional viability

- 4.1 With respect to the technical viability of the measures established as conditions for disbursement of the three tranches, all have been agreed upon with the institutions in charge of fulfilling them. The Government of Guatemala is firmly committed to making every effort to meet those conditions, as can be seen in the Sector Policy Letter that is currently being prepared.
- 4.2 As for institutional viability, MINFIN and the Ministries of Education and Health, as well as SOSEP, are all capable of coordinating and meeting the conditions for release of resources in the three tranches. Furthermore, they have the institutional and technical capability to comply with the conditions established in the policy matrix, and with the targets and midterm indicators. As regards SEGEPLAN, technical-cooperation funds will be provided to help it satisfactorily fulfill its role as coordinator in the design and implementation of the “Guate Solidaria” strategy. At the same time, technical-cooperation operations using both Fund for Special Operations (FSO) (see paragraph 3.8) and Japanese Fund resources are being prepared to help ensure compliance with the disbursement conditions for the second and third tranches.

B. Social and environmental impact

- 4.3 The program is expected to have a strong social impact, by supporting the government’s efforts to direct social interventions toward the least privileged segments of the population and to set a poverty reduction strategy—“Guate Solidaria”—that involves monitoring of families.
- 4.4 **Gender and ethnic equity.** As a condition for release of the first tranche, the final version of the “Guate Solidaria” strategy must contemplate measures to ensure fulfillment of the rights of the women and indigenous communities benefiting from the interventions. Moreover, as part of the effort to reduce the incidence of malnutrition in the more remote communities, support will be lent to existing community organizations, and women leaders in the communities will be trained as monitors, working closely with health centers to support women in various areas and to promote their participation in decision making. Women who are pregnant or breast feeding will receive health care to prevent health problems or premature deaths. The program will also leave services and installed capacity in the communities to ensure their access to development opportunities. The interventions in participating communities will be culturally appropriate and use the local languages.

- 4.5 Because of the nature of the program, it will have no direct environmental impact. Mainly indirect impacts of the program were evaluated. They have to do with the handling of hospital waste, an aspect that the coverage expansion units will deal with by applying the regulations in force.

C. PTI and SEQ classification

- 4.6 This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Since it is a policy-based loan, it does not qualify as a poverty-targeted investment (PTI).

D. Benefits

- 4.7 The following benefits, in particular, are expected: (i) improved management of public expenditure, together with the planning and targeting of social expenditure to the poorest and most vulnerable sectors; (ii) more productive investment in human capital by providing basic services in education, health, and food and nutritional security in municipalities and communities previously cut off from progress and excluded from the social benefits and programs essential for their development; (iii) enhanced public sector responsiveness and more effective provision of basic services that take into account the different cultures of the populations served; (iv) safeguards ensuring that key social programs for addressing the needs of the most vulnerable population in rural areas have the budget resources they need to achieve the established targets consistent with the Millennium Development Goals; and (v) implementation of a results-driven management model based on the establishment of annual targets for each sector, which will force decision makers to focus on the most pressing problems and solutions to them, as well as on the poorest segments of the population.

E. Risks

- 4.8 The "Guate Solidaria" strategy is an initiative of the current administration to ensure that social services and social expenditure target the poorest segments of the population. It is conceived as a comprehensive strategy designed to respond to the critical issues that block the inclusion in society of families living in extreme poverty. That being so, it is necessary to ensure that the various institutions participate in a well-coordinate manner. To minimize the risk that they might not, the program will enter into agreements with the ministries to formalize the commitments that sector institutions will be required to make. These entities include the Ministries of Education and Health, the social investment funds, and SOSEP. To ensure that SEGEPLAN performs its coordinating role efficiently, technical-cooperation funds will be provided to bolster the technical and operational capacity of its Under-secretariat for Social Policies.

- 4.9 In view of the central government's fiscal situation, one of the principal risks would be additional fiscal constraints affecting the allocation of necessary funds for the social sectors and jeopardizing the attainment of midterm fiscal targets and hence the achievement of the program's medium and long-term objectives. The proposed measures and reforms do not require legislative approval. At the same time, the measures and interventions supported by the program are accorded top priority in the Government Plan.
- 4.10 **Sustainability.** The sustainability of the policies and reforms supported by the program is guaranteed by the generalized political consensus, reflected in the "Guate Solidaria" strategy, regarding the need to implement policies focusing on the reduction of extreme poverty. At the same time, this strategy builds on sector programs being executed with considerable success by the Ministries of Education and Health. In addition, this strategy will facilitate the coordination mechanisms of the different sectors (services, programs, and benefits), thereby allowing the government to provide a comprehensive nationwide response. Lastly, strengthening municipal and community management is considered a crucial factor for guaranteeing the sustainability of the strategy.

V. POLICY MATRIX

Problem	Action	Impact	Conditionalities for disbursements		
Stable macroeconomic environment			First tranche	Second tranche	Third tranche
Insufficient growth, weak fiscal position, and scant governance jeopardize macroeconomic stability and the effectiveness of social policies for reducing poverty and social exclusion.	Maintain economic growth and stability that would promote execution of poverty-reduction programs.	Stable macroeconomic environment.	Maintenance of a macroeconomic environment consistent with the program’s objectives		
Component 1. Implementation of the “Guate Solidaria” social protection strategy					
57% of Guatemalans are poor and 21.5% live in extreme poverty. Poverty mainly affects indigenous persons and those in rural areas. 72% of the inhabitants of rural areas live in poverty.	Implement a comprehensive intervention strategy targeting families living in rural communities, with special attention to families with malnourished children under 5.	A reduction of extreme poverty in exclusively rural communities pertaining to the municipalities targeted because they have the highest food insecurity levels.	<ul style="list-style-type: none">- Evidence of the drafting of the “Guate Solidaria” strategy and Plan of Action for initial implementation in prioritized municipalities.- Evidence that SEGEPLAN has been designated the entity responsible for coordinating the “Guate Solidaria” strategy and that the necessary human resources have been assigned to facilitate coordination of the strategy.	<ul style="list-style-type: none">- Evidence of implementation of the initial phase of “Guate Solidaria,” based on the consolidated register of beneficiaries (RIB) system.- Design of a Plan of Action for expanding the “Guate Solidaria” strategy to prioritized municipalities.	<ul style="list-style-type: none">- Presentation of a report on the outcome of interventions in communities in which the “Guate Solidaria” strategy was implemented for at least two years, and a progress report on interventions in the remaining municipalities that were prioritized. That report will be based on the RIB.
1.1 Education sector					
The Guatemalan school system suffers from high repeater and dropout rates, especially in 1 st and 2 nd grade.	- Improve promotion and retention rates in 1 st and 2 nd grades of primary school,	More children finish primary school: a substantial saving in terms of government	- Plan for implementing the “Let’s Save First Grade” program, incorporating its strategy of focusing on	- Evidence of implementation of the “Let’s Save First Grade” program, particularly in the	- Final report on latest results of the “Let’s Save First Grade” program.

Problem	Action	Impact	Conditionalities for disbursements		
There are no good data on the location and number of schools and teachers, or on the need for, quality of, and upkeep of school infrastructure, all of which make it difficult to address demand for coverage and quality.	<p>through the “Let’s Save First Grade” program.</p> <p>- Produce a map of the education sector, with information on the location and number of schools, teachers, pupils, and quality of infrastructure.</p>	<p>expenditure.</p> <p>Timely and reliable statistics are available to support decisions to direct investment toward school infrastructure, strengthening MINEDUC’s leadership in this field.</p>	<p>municipalities prioritized by “Guate Solidaria”.</p> <p>- Evidence that the school infrastructure census has been designed.</p>	<p>prioritized municipalities.</p> <p>- Evidence that the census has been carried out in at least the “Guate Solidaria” municipalities.</p> <p>- Evidence that a single set of regulations on school physical infrastructure has been prepared.</p>	<p>- Evidence that the single set of regulations on school physical infrastructure and equipment has entered into force.</p> <p>- Publication of the findings of the physical educational facilities survey.</p>
1.2 Health sector					
The country has major basic health services coverage problems, especially in the poorest municipalities with a high concentration of rural and indigenous inhabitants. This is reflected in a high maternal-child morbidity and mortality rate due to causes that are avoidable and preventable.	<p>Direct MSPAS expenditure to expansion and improvement of health services coverage for this target population, mainly through agreements with nongovernmental organizations (NGOs).</p>	<p>Improvement in the health status of the poorest segments of the population, principally socially marginalized mothers and children.</p>	<p>- Presentation of the technical proposal for the expansion and improvement of basic health services coverage and for the design of a system to monitor and evaluate them.</p>	<p>- Evidence of the expansion and improvement of PBSS coverage to a segment of 250,000 beneficiaries living in the municipalities targeted by “Guate Solidaria”.</p> <p>- Evidence that the monitoring and evaluation system has been implemented in MSPAS.</p>	<p>- Evidence of the expansion and improvement of PBSS coverage, by concentrating on the most cost-effective services and raising the quality of the package of basic services, for 500,000 beneficiaries living in the municipalities targeted by “Guate Solidaria”.</p> <p>- Delivery of the initial evaluation report by the monitoring and</p>

Problem	Action	Impact	Conditionalities for disbursements		
					evaluation system on process management and the results of the expansion and improvement of basic health services coverage.
1.3 Food security and nutrition					
Guatemala has one of the world's worst malnutrition indicators (growth retardation in 44% of all children under 5, and an even higher percentage of children in: (i) the poorest quintile (62%) compared to the top quintile (16%); (ii) rural areas (51%) compared with urban areas (32%); and (iii) indigenous peoples (58%), compared with the nonindigenous (33%).	Implement a comprehensive care model strategy and programs directed at families with malnourished children under 5. Conduct food programs in all rural schools in the participating municipalities.	Food and nutrition programs target the most vulnerable population groups, enhancing their impact by adopting a comprehensive approach and improving the nutritional status of the poor.	- Evidence of the design of a system to monitor and track food and nutritional status for the "Growing Well" program. - Evidence of the start of comprehensive interventions addressing families with malnourished children under five 5 in communities in at least two rural municipalities prioritized by "Guate Solidaria".	- Midterm results report on beneficiaries served, on the basis of the RIB system, in the prioritized municipalities (see Annex I).	- Report on the results of the interventions for children, families and beneficiary communities, based on the RIB system (see Annex I).
1.4 Social funds					
Although 46% of social investment is carried out by social investment funds, there is no coordination among them. They duplicate efforts and there is very little coordination with local governments and line ministries.	Establish a Social Funds Board to coordinate efforts and enhance the impact of investment by the major social funds, in addition to giving priority to investments for the poorest segments of the population, under the	- Under the direction and supervision of the Social Cabinet, the investment funds' investment plans are coordinated. Coordination with MINEDUC and MSPAS also improves. - Improvement in the social return on investments.	- Evidence of the Executive Order establishing the National Social Funds Coordination Board (DNCF).	- Evidence that the DNCF has established criteria for maximizing social fund investments in the municipalities.	- Evidence that the programming of the social funds for 2007, at least in the municipalities prioritized by the "Guate Solidaria" strategy, is consistent with the criteria set by the DNCF.

Problem	Action	Impact	Conditionalities for disbursements		
	"Guate Solidaria" strategy.				
Component 2. System for monitoring and evaluating social policy					
There are no data on the results of social programs, which is a constraint on the adoption of pertinent corrective measures.	Design a system for monitoring, following up on, and evaluating social policy and social programs.	Pertinent information is available on the impact of social programs, together with the inputs needed to improve those programs.	- Evidence of the institutional diagnostic assessments on indicators to be used for the National System of Indicators (SNI).	Evidence of the progress made on the joint work plan by the Bank, the borrower, and SEGEPLAN, in identifying social indicators for at least MINEDUC and MSPAS.	- Evidence demonstrating that the 2007 budget for MSPAS and MINEDUC was prepared in such a way that budget allocations are linked to targets.
Component 3. Prioritization, protection, and monitoring of social programs					
Given the difficult fiscal situation, priority social program budgets could be cut.	Establish indicators and financial targets for priority programs.	Minimum expenditure levels are guaranteed.	A baseline has been defined and targets agreed upon for the second and third tranches (see Annexes I and II) with regard to the prioritized social programs.	Evidence that programmed targets have been met since the first tranche (see Annexes I and II).	Evidence that programmed targets have been met since the first tranche (see Annexes I and II).